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# Pakistan

# Grain and Feed

# Annual

# 2004

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**Report Highlights:**
Pakistan's MY 2004/05 wheat production is forecast at 20 million Metric Tons (MMT), resulting from widespread rains in November and December, and greater availability of fertilizer and herbicide inputs. Despite the second largest cop forecast, Pakistan is expected to import 200,000 MT of wheat due to the lower stock level in the government reserve and an anticipated shortfall in local supplied available for procurement for the food department. The GSM-102 program remains a viable tool for importing U.S. wheat once final institutions overcome apprehensions rooted in policy inconsistencies. New wheat specifications for government tenders includes a requirement for non-GM commodity.

Pakistan's MY 2004/05 rice crop is forecast at 5.0 MMT, with expansion in acreage of IRRI rice crop. Rice exports are forecast at 2.0 MMT.

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Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
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[PK]

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**Executive Summary**

Pakistan's MY 2004/05 wheat production is forecast at 20 MMT on higher expected yields based on greater use of production inputs. Nevertheless, imports (estimated at 200,000 MT) are projected given the government's determination to continue its unrestricted trade policy coupled with the domestic market that attracts above market rates for wheat and wheat flour. MY 2003/04 imports will likely not achieve earlier projections after the Government of Pakistan rejected 150,000 MT of Australian wheat purchased in January purportedly due to presence of karnel bunt (which Australian officials question).

Pakistan's MY 2004/05 rice production is forecast at 5.0 MMT on higher production of IRRI rice. With higher production and static demand in the domestic market Pakistan is expected to export upwards of 1.8 MMT of rice in MY 2004/05.

**WHEAT**

**Table 1: Wheat Production, Supply and Demand**

| Country | Pakistan | | | | | |
|---|---|---|---|---|---|---|
| Commodity | Wheat | | | | (1000 HA)(1000 MT) | |
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 05/2002 | | 05/2003 | | 5/2004 |
| Area Harvested | 8057 | 8057 | 8000 | 8094 | 0 | 8200 |
| Beginning Stocks | 2591 | 2591 | 1433 | 1433 | 0 | 1725 |
| Production | 18226 | 18226 | 18200 | 19192 | 0 | 20000 |
| TOTAL Mkt. Yr. Imports | 181 | 181 | 500 | 50 | 0 | 200 |
| Jul-Jun Imports | 181 | 181 | 500 | 50 | 0 | 200 |
| Jul-Jun Import U.S. | 160 | 160 | 0 | 0 | 0 | 100 |
| TOTAL SUPPLY | 20998 | 20998 | 20133 | 20675 | 0 | 21925 |
| TOTAL Mkt. Yr. Exports | 1185 | 1185 | 200 | 50 | 0 | 50 |
| Jul-Jun Exports | 1137 | 1137 | 400 | 50 | 0 | 50 |
| Feed Dom. Consumption | 400 | 400 | 400 | 400 | 0 | 200 |
| TOTAL Dom. Consumption | 18380 | 18380 | 18750 | 18900 | 0 | 19500 |
| Ending Stocks | 1433 | 1433 | 1183 | 1725 | 0 | 2375 |
| TOTAL DISTRIBUTION | 20998 | 20998 | 20133 | 20675 | 0 | 21925 |

**Production**

MY2004/05 production is forecast at 20 MMT, or 4 percent above last year's crop, due to expected increase in yield. This year's crop planting was delayed due to heavy rains in mid-November 2003. However, with a one percent increase in area, adequate rainfall from November to January 2004 in most areas, and increased application of production inputs of both nitrogenous and phosphoric fertilizers (15 percent), herbicides (40 percent), and greater availability of irrigation water (30 percent) as compared to the corresponding period of last year, this year's crop is forecast to be the second largest crop harvested on record. The 20 MMT production forecast represents potential production and assumes no further deterioration in the condition of the crop before the harvest scheduled to commence the later half of March.

Pakistan is emerging rapidly from the ravages of the 3-year drought that many considered the worst since the world's largest contiguous irrigation network became operational in the 1970's. Water supplies available for agricultural irrigation currently stands at 19 percent below normal, compared to 50 percent below normal for same period a year ago. Water used for irrigation is held mainly in two large reservoirs -Tarbela and Mangla, during the summer for use during "Rabi," or the winter growing season. About two-thirds of the country's water for irrigation is sourced from snow and glacier melts, with the remainder derived from seasonal monsoon rains. The Indus River System Authority (IRSA) currently projects water supplies for irrigation would improve after March due to a larger snow pack this winter.

Since the irrigation system was completed in the 1970s, demand has increased more than 50 percent while storage capacity has decreased one-third due to silting, leaving per capita availability at a fraction of its original level. As a result, chronic shortfalls in water supplies available for irrigation are expected to play an increasingly larger constraint on Pakistan's agricultural advancement in the absence of more systematic planning and management of water resources.

In addition to the water supply situation, this year's output will be affected by a delayed planting in areas where wheat is double-cropped with sugarcane. The sugarcane crop was harvested late due to a dispute over farm gate pricing thus causing a delay in wheat sowing.

In Sindh Province, where the shortage of water is less severe than last year and where the Pakistan harvest begins, the crop is good. In this province ground water in most areas is alkaline and not fit for tube well irrigation, necessitating a greater reliance on canal water. In the Punjab province, where extensive tube well irrigation is utilized, the crop is generally considered to be in above average condition. With the bulk of the Punjab crop about to enter the grain-formation stage, adequate irrigation and moderate temperatures during the month of March will be critical for the success of this year's output. Condition of the highland crop, which comprises 10 percent of total production, is in better shape as compared to last year's crop.

The 2003/04-crop output estimated by the Ministry of Agriculture (MINFAL) is suspect. The MINFAL production figure of 19.192 is based on a harvest of 15.36 MMT in Punjab. However, Punjab province scientists and farmers groups disagree with this revised size of harvest. The market apparently agrees with the Punjab locals as prices rose significantly above the official procurement price of Rupees 7,500 per metric ton shortly after completion of the nation's harvest in July 2003.

**Consumption**

Consumption is difficult to gauge. With wheat export now legal, cross-border trade with Afghanistan should be captured as an export whereas before it disappeared as domestic consumption. However, local officials note around 1,000 MT of wheat and wheat flour is still moving across the border to Afghanistan from different points daily. Further, customs data do not report export to Afghanistan.

Prior to September 2003, domestic flour and bread prices generally remained stable due to adequate government stocks as well as privately held stocks. However the quick draw down of government-held stocks and very limited availability of supplies in the open market due to a short crop this past year, have combined to nudge wheat and wheat-based product prices upward.

Consumer preferences are shifting, from traditional flat bread to western style loaf bread, particularly in urban areas where it is viewed as a convenient breakfast food, and, from traditional home-ground flour to commercially produced flour. The change in preference from higher to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products also is expected to increase in response to changing lifestyles more supportive of western-style fast food chains recently introduced into the country.

Pakistan's wheat milling industry is privately owned. Principal milled products include "midda" (which is a 72 percent extraction flour used for loaf bread and other products) and "atta" (which is an 82 percent extraction flour used for flat breads). For quality and price reasons millers prefer to mix local semi-hard white wheat with imported soft white wheat at a 60:40 rate. Although consumers traditionally prefer white bran wheat, millers can blend up to 20 percent bran wheat to produce "atta" and up to 10 percent to produce "midda" while still producing an acceptable product.

Under ongoing reforms the government is removing itself from regulating the market and is reducing the remaining consumption subsidy offered for wheat. With the market better able to set price, advantages' accrued for buying from or selling to the government is declining. With removal of many restrictions on wheat transportation and storage, the government is creating an environment better to facilitate trade. Further, since the 2003 crop season, the State Bank of Pakistan (Central Bank) now authorizes commercial banks to provide private sector financing for wheat purchase. If the government stays the current course, barring a natural disaster, this year's wheat market should be regulated only by stock availability and international price.

**Trade**

MY 2003/04 Pakistani wheat exports are projected to be minimal.

Traditionally, Pakistan is a wheat importer. It is expected that wheat imports would commence from the fall 2004 to cater demands in MY 2003/04, especially if the government's liberal domestic sales and wheat export policy continue. The GOP has announced a continuation of the more liberal trade policy set for wheat and its products in the coming year. MY 2004/05 import volume is projected to be larger based on a combination of a smaller than initially projected MY 2003/04 ending stock, a more moderate MY 2003/04 crop than forecasted, stronger open market prices and stronger domestic demand. Political pressures to check prices may increase demand for government release of subsidized stocks onto the market which leads most observers to believe that imports would be necessary to avoid a crisis during the second half of MY 2004/05.

During MY 2003/04 the Ministry of Food, Agriculture and Livestock (MINFAL) redefined its wheat specifications to be used for government tenders. Revised specifications and type follows (note the specs call for GM free and new crop wheat):

| | |
|---|---|
| Type: | Medium Hard White Wheat |
| Test Weight: | 76 kg/HL minimum |
| Protein: | 10% minimum |
| Moisture Contents: | 12% maximum |
| Foreign Matter: | 0.5% maximum |
| Wet Gluten: | 26% minimum |
| Falling Number: | 350 per second minimum |
| Shrunken & broken Kernel: | 2% maximum |
| Damaged grains: (sprouted, heat damaged etc) | 0.5% maximum |
| Edible grains other | 1% maximum |
| Color | Original |
| Mycotoxin: | Not more than 5 parts per billion |
| Dockage total deductible: | Over one half of one percent |
| Quarantine: | Should meet quarantine requirements of Pakistan |
| Ergot: | Nil |
| Dioxin: | Free |
| Dead/Live insects/larvae: | Free |
| GMO: | Free |
| Heavy metals: | Within WHO permissible limits |
| Special requirements: | a) Minimum lot size 25,000 metric ton<br>b) Free from Kernel bunt and Striga weed<br>c) Fit for human consumption<br>d) Treated with phosphene at or immediately prior to loading at rate of 10 ounces of active ingredients per 1,000 bushel of wheat<br>e) Fresh crop stocks |

USDA has raised concern over requirements of the new wheat specifications with the Government of Pakistan. The matter is still under discussion.

During MY 2003/04 MINFAL contracted to import 150,000 MT of wheat. Due to a delay in scheduling imports, and a smaller than anticipated stock level, open market wheat prices now average around 30 percent higher than official government prices. Prices are not likely to drop as reportedly the 150,000 MT of Australian wheat imported under the contract was rejected due to presence of Karnal bunt. Reports of wheat flour shortages in many parts of the country are now appearing. Other wheat imported in MY 2003/04 and all wheat imported in MY 2002/03 was donations to the World Food Program for Afghan refugees housed both in Pakistan and Afghanistan.

The United States traditionally has been the primary wheat supplier to the Pakistani market due to quality and reliability reasons. Australia, however, has made significant inroads into this market through the use of predatory pricing, cheap freight and credit, and other non-market tactics. Canada is an occasional supplier to this market. The Australian Wheat Board (AWB) considers Pakistan to be a premium market. The AWB often commands a premium of $10 or more in this market over better-quality U.S. soft white wheat (SWW) FOB prices by virtue of its freight advantage. The AWB also receives an additional premium through the manner in which Pakistan tenders. Although June is when U.S. prices are lowest and the government already has a clear idea on the local crop size and import requirements, the GOP generally waits several months before buying. As a result, Pakistan buys more wheat late in the year and via large tenders. Although U.S. participation in these tenders ensures the required competition, timing is such that the tender offers are much higher than should be necessary. Pakistan could save significant foreign exchange by procuring earlier in the

summer when prices are much more attractive. With the more liberalized environment, the private sector is likely to apply a stronger business orientation in their buying decision.
Import duties/taxes are as follow:
Wheat - zero import duty, zero sales tax
Wheat flour - 10 percent import duty, 15 percent sales tax on import

## Stocks

MY 2003/04 ending stock levels is causing quite a controversy. The GOP holds most stocks through various provincial food departments. If imports increase as many in the private sector speculate due to the difference in international and domestic prices, carry-over stocks in MY 2004/05 are likely to rise significantly. MY 2004/05 opening stocks of the government food departments have been forecast at around 100,000 MT only. The overall large opening stock is based on the MINFAL estimate of a larger than initially estimated harvest of MY 2003/04 crop.

## Policy

MINFAL has announced it will continue the current policy for wheat procurement and trade thru the new marketing year. Wheat and wheat products can be traded freely and banks can finance such trade.

## RICE

### Table 2: Rice Production, Supply and Demand

# PSD Table

| Country | Pakistan | | | | (1000 HA)(1000 MT) | |
|---|---|---|---|---|---|---|
| Commodity | Rice, Milled | | | | | |
| | 2002 | Revised | 2003 | Estimate | 2004 | Forecast |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] |
| Market Year Begin | | 11/2002 | | 11/2003 | | 11/2004 |
| Area Harvested | 2201 | 2201 | 2400 | 2440 | 0 | 2210 |
| Beginning Stocks | 101 | 203 | 84 | 45 | 0 | 211 |
| Milled Production | 4228 | 4479 | 4900 | 4866 | 0 | 5050 |
| Rough Production | 6343 | 6719 | 7351 | 7300 | 0 | 7576 |
| MILLING RATE (.9999) | 6666 | 6666 | 6666 | 6666 | 0 | 6666 |
| TOTAL Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Jan-Dec Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Jan-Dec Import U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 4329 | 4682 | 4984 | 4911 | 0 | 5261 |
| TOTAL Exports | 1600 | 1992 | 1650 | 2000 | 0 | 2000 |
| Jan-Dec Exports | 1700 | 1925 | 1700 | 2000 | 0 | 2000 |
| TOTAL Dom. Consumption | 2645 | 2645 | 2700 | 2700 | 0 | 2750 |
| Ending Stocks | 84 | 45 | 634 | 211 | 0 | 511 |
| TOTAL DISTRIBUTION | 4329 | 4682 | 4984 | 4911 | 0 | 5261 |

### Production

MY 2004/05 production is forecast at 5.0 MMT based on expected improvement in yields and expanded planting of IRRI rice. In MY 2003/04, Basmati production totaled 2.4 MMT (up 286,000 MT OVER the previous crop) and IRRI production totaled 2.03 MMT (up 163,000 MT over the previous year).

Water availability during the critical March-May period is expected to be good. If a cut in water distribution during this period occurs, the affect would be more pronounced on the IRRI rice more than the Basmati. The IRRI rice generally is grown in areas that rely heavily on canal irrigation, while Basmati is grown in areas employing large-scale tube well irrigation. Based on the source of the water input and current water availability situation, both types of rice are expected to be sown on time. Since 2000, the government discontinued setting a procurement price for paddy and milled rice, and abandoned rice procurement through state trading enterprises.

## Consumption

Rice is not a staple commodity in the Pakistani diet. Its consumption is increasing slowly as compared to that for wheat. About 60 percent of the crop is destined for local consumption with the remainder exported. The government does not maintain official grade standards for rice. Annually an estimated 150,000 metric tons, 40 -100 percent broken, is used in poultry feed.

## Trade

Pakistan is a major exporter of rice. MY 2004/05 export volume is projected at 2.0 MMT, consisting 700,000 MT of Basmati and 1.3 MMT of IRRI rice varieties. All trade is conducted by the private sector, as the state owned Rice Export Corporation was abolished several years ago. Today, another state trading agency, the Trading Corporation of Pakistan (TCP), plays a limited role in the rice trade by facilitating government-to-government exports through the private sector. The GOP, in consultation with the Rice Exporters Association of Pakistan (REAP), established a quality review committee to certify the quality of Pakistani rice prior to shipment in an effort to boost the image of Pakistani rice, especially that of Basmati rice. In CY 2003 Pakistan exported 823,242 MT (only 592,867 Mt in CY 2002) of basmati rice and 1.135 MMT of IRRI rice. The increase in Basmati rice trade in CY 2003 was driven by the EU offer to allow brown Basmati rice import at zero duty rate. The EU has withdrawn this concession for rice shipments contracted after December 31, 2003. Pakistani trade still has to sizeable quantities to ship under the old agreement. Pakistani Basmati rice traders are optimistic the EU concession on Basmati rice will be restored in a new contract to be negotiated in CY 2004.

## Stocks

MY 2004/05 ending stocks are projected to increase due to the larger crop. All stocks are held by the private sector and are in small lots.

## Policy

There is no restriction on rice exports. For rice imports there is 10 percent import duty and 15 percent sales tax.